



# CENTRAL BANK OF TRINIDAD & TOBAGO

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July 28, 2017

**CIRCULAR LETTER TO ALL FINANCIAL  
INSTITUTIONS LICENSED UNDER THE  
FINANCIAL INSTITUTIONS ACT, 2008**

**REF: CB-OIFI-1965/2017**

**LARGE EXPOSURES TO CORRESPONDENT BANKS**

Sections 42(1) & 43(1) of the Financial Institutions Act, 2008 (FIA) require licensed financial institutions to maintain specific credit exposure limits as outlined below:

**1) Section 42(1) of the FIA states:**

*"A licensee shall not, directly or indirectly, incur a credit exposure to a person, borrower group or related group in an aggregate amount that exceeds twenty-five per cent of its capital base other than a credit exposure that is...."*

**2) Section 43(1) of the FIA states:**

*"A licensee shall not, directly or indirectly, incur credit exposures: (a) to any connected party or connected party group in a principal amount exceeding ten per cent of its capital base or (b) to all connected parties and connected party groups in an aggregate principal amount exceeding twenty-five per cent of its capital base."*

The Central Bank recognizes that there have been instances where commercial banks have incurred overnight credit exposures to their respective correspondent banks over the stipulated exposure limits. These overnight credit exposures have occurred in most part with respect to balances held as a result of deposits placed at correspondent banks for settlement of foreign exchange transactions on behalf of their customers.

Correspondent banking involves the provision of banking services by one financial institution to another financial institution which is located in a different jurisdiction. It typically involves the two banks establishing reciprocal accounts with each other. Such banking relationships enable banks to handle international financial transactions for their customers such as forex trading, trade finance, funds transfers and cheque clearing. This, it is noted, is different from an interbank relationship for the purposes of section 42(1) (f) of the FIA, which is domestic in nature.

The Central Bank acknowledges that for correspondent banking transactions, payments take place around the world, in different time zones, with different market practices, holiday regimes and currencies. Further, the payments take place across a network of commercial banks and involve their related cash correspondent banks. It is further acknowledged that the cash activity for such transactions is highly volatile and may be dependent on client behavior. Thus, large exposures may unexpectedly arise especially towards the end of the business day, at a time when further reduction of the exposures cannot be reasonably achieved but are generally expected to be resolved by the next business day.

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Based on the characteristics outlined above regarding correspondent banking transactions, the Central Bank acknowledges that such overnight breaches of the large exposure limit to correspondent banks under section 42(1) and 43(1) of the FIA carry minimal risk to the sector and the institution. Consequently, where licensees' exposures to correspondent banks exceed the limits stated in sections 42 and 43 of the FIA, the Central Bank may not levy an administrative fine against licensed financial institutions in accordance with the Fourth Schedule of the FIA or take other regulatory action subject to the following conditions:

- a) the **exposure arises from the provision of correspondent banking activity**;
- b) the **exposure is to a strong correspondent bank** i.e. at least an investment grade credit rating from an internationally recognized credit rating agency;
- c) the **exposure arises from unexpected client activity**, where the bank is unable to reduce the exposure with reasonable efforts before close of the business day; and
- d) the **exposure is short-term (overnight) and does not last longer than the following business day.**

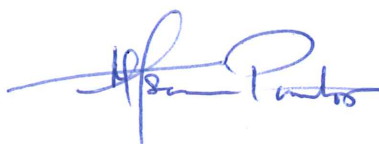
In addition, all cases where a contravention of the limits contained in section 42(1) or 43(1) occurs as a result of an exposure by the licensee to its correspondent bank the licensee **must immediately**:

1. **Notify** the Central Bank of the contravention of the limits in accordance with section 44 of the FIA. The official notification must be submitted in writing within **one** business day from the occurrence of the breach. The notification must be supported by submission of the details surrounding the excess exposures which should reveal that the infraction was due to the failure of the counterparty (licensee &/or customer) to adhere to the timeline for execution of the transaction or related procedures.
2. **Rectify** the breach within one business day from its occurrence. The timeline of rectification of the breach must be confirmed to the Central Bank by the licensee in writing with supporting documentation.

Accordingly, it is expected that the licensee will have appropriate policies, procedures and systems in place to adequately manage, monitor and promptly rectify any large exposures to correspondent banks.

Please be guided accordingly.

Yours sincerely



Michelle Francis-Pantor  
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